

**TELFORD & WREKIN COUNCIL**

**CABINET – 26<sup>th</sup> JUNE 2014**

**WEST MERCIA ENERGY JOINT AGREEMENT**

**REPORT OF ASSISTANT DIRECTOR OF LAW DEMOCRACY AND PEOPLE SERVICES**

**LEAD CABINET MEMBER – CLLR BILL McCLEMENTS**

**PART A) – SUMMARY REPORT**

**1. SUMMARY OF MAIN PROPOSALS**

1.1 For members to consider an extension of the current West Mercia Energy (WME) Joint Agreement which expires 31<sup>st</sup> March 2016 to 31<sup>st</sup> March 2020

**2. RECOMMENDATIONS**

**2.1 That Cabinet authorise the Assistant Director of Law, Democracy and People Services to agree and execute amendments to, and an extension of the WME Joint Agreement along with the three other owning Authorities; Shropshire Council, Herefordshire Council and Worcestershire Council as detailed in this report and as recommended by the Joint Committee that is responsible for the strategic management and oversight of West Mercia Energy.**

**2.2 That Cabinet note further investigations into the possible transformation of WME into a trading company and delegate decision-making in respect of this issue to the Cabinet representatives on that Joint Committee at the time when/ if the issue comes forward for consideration.**

### 3. SUMMARY IMPACT ASSESSMENT

<b>COMMUNITY IMPACT</b>	Do these proposals contribute to specific Co-Operative Council priority objective(s)?	
	Yes/No	The Council currently purchases energy from WME for schools and own properties and secured good value for money
	Will the proposals impact on specific groups of people?	
	No	
<b>TARGET COMPLETION/DELIVERY DATE</b>	Agreement to the extension is required by all 4 owning Authorities and is envisaged to be executed and agreed by September 2014	
<b>FINANCIAL/VALUE FOR MONEY IMPACT</b>	Yes/No	The Joint Agreement includes the provision that accumulated surpluses identified for distribution are allocated to Member Authorities each year linked to the level of trading activity by each Member Local Authority. The dividend received by this Council in 2013/14 was £344k which exceeded the budgeted target by £144k. Based on monitoring information provided, WME performance continues to be extremely positive and the income target for 2014/15 has been increased to £300k, which supports the Council's overall budget. Any variations against the target will be reported through financial monitoring as appropriate. The agreement also highlights that Member Authorities are jointly liable in equal shares for any liabilities of WME. The amendments to the agreement allow WME to explore options which will help secure future business. In particular, the changes allow trading with organisations that have transferred from a local authority (for example to a local authority owned company). This is important to WME's income stream, as many councils are now looking at different service delivery models, which include the use of organisations which are not designated public bodies. To comply with regulations, any fee must be

		based on a cost-recovery basis only. <b>PH – 16 5 14</b>
<b>LEGAL ISSUES</b>	Yes/No	The Cabinet has delegated day to day decision-making to the West Mercia Energy Joint Committee where Telford & Wrekin Council are currently represented by Cllrs B McClements and A England. However as the proposals are significant and extend the agreement and propose significant amendments to the current joint agreement it is appropriate that this delegation is approved by Cabinet
<b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b>	Yes/No	Any decisions about the future development of the WME business are determined by a Joint Committee upon which Telford & Wrekin Council are represented by Councillors B McClements and Cllr A England, acting upon advice from a management group comprising of senior officers.
<b>IMPACT ON SPECIFIC WARDS</b>	No	

## **PART B) – ADDITIONAL INFORMATION**

### **4. INFORMATION**

- 4.1 In 2012 Cabinet granted approval for the Council to enter into a Joint Agreement with Shropshire Herefordshire and Worcestershire Councils to form West Mercia Energy.
- 4.2 The Joint Agreement sets an initial membership term for all owning Councils of 1<sup>st</sup> October 2012 to 31<sup>st</sup> March 2016.
- 4.3 Following the Chief Executives meeting on the 28<sup>th</sup> January 2014, the following recommendations were put forward :
  - 4.3.1 Extension of the West Mercia Energy Joint Agreement to 31<sup>st</sup> March 2020 permitted by clause 3.1
  - 4.3.2 Retain current Joint Committee structure and utilise the general power of competence under the Localism Act 2011 to allow WME to provide services to the transferring supplies which are not designated public bodies under the 1970 Act.
  - 4.3.3 Amend the Joint Agreement referencing that the Joint Committee now also operates under provisions of section 1 of the Localism Act 2011;

- 4.3.4 Amend clause 4.1 'Objectives' to include additional wording which states "The objectives of the Joint Committee shall be to maintain effective, efficient and economic arrangements for the purchase and supply of energy at the request of and to the satisfaction of the Member Authorities and to other public bodies [*non-profit making and charitable organisations, education providers, including Academies, and private sector organisations delivering public services on behalf of public bodies and such other organisations which may be approved by the Joint Committee (including approval via the Annual Business Plan)*] where it is permitted by law and is to the benefit of Member Authorities to do so"
- 4.4 These recommendations are seen as a sensible approach to securing future public sector business and offering a cost effective solution to a wider market whilst fully recovering all attributable costs. However, this model might not provide sufficient flexibility and members are asked to endorse further work by officers to investigate the longer term option of establishing WME as a trading company in the future and delegate any decisions in respect of this to the Councillor representatives on the Joint Committee.
- 4.5 The WME business continues to make surpluses year on year. As of March 2014 WME reported that gas profit had been £88k greater than the budgeted figure of £264k and electricity figures were £83k greater than the budget of £675k. Oil profit increased by £12k and supplier rebates had also increased by £23k due to increased volumes.
- 4.6 Overall net profit was noted to be £1,352m which was £250k better than budgeted figures for the 10 month billing period. The actual figures to date and full year estimate are well above forecast. By including the remaining 2 months billing, the full year forecast is set to improve to £521k (£1.77m net result).
- 4.7 This month alone, WME have made trading gains by buying next years fuel whilst the markets are low and stable and offsetting and selling where required. Daily, proactive management ensures that the trading positions give the owners and customer the best value options. WME confidently operates in the energy market alongside competitors from larger Professional Buying Organisations such as Crown Commercial Services and ESPO
- 4.8 WMEs portfolio has also grown by winning tenders to supply to Swindon Council and Gloucestershire County Council. Contracts have also been extended with Blackpool & Fylde College, East Cheshire Council, Cheshire Police Authority and options to extend remain for a further 5 public sector organisations.

## **5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

**6. PREVIOUS MINUTES**

CB-58 West Mercia Energy 8<sup>th</sup> November 2012

**7. BACKGROUND PAPERS**

**Report prepared by Sarah Bass, Strategic Procurement Ext 82470**